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The South Indian Bank (SIB)

October 01, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Issuer rating	-	IVR AA-/Stable (IVR Double A minus with Stable outlook)	-	Assigned	Not applicable
Total			-		

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics ratings has assigned “Issuer ratings” to SIB as it derives comfort from sustained improvement in the earnings profile of the bank, granular and diversified loan book, comfortable capitalisation and moderate resource profile. However, the ratings are constrained by average, albeit improving asset quality and regionally concentrated operations.

Infomerics has assigned “Stable” outlook as it expects that the bank will continue to grow its business on the back of comfortable capitalisation and established presence while maintaining healthy asset quality and profitability.

Key Rating Sensitivities:

Upward factors

- Substantial and sustained growth in advances, deposit mobilisation, profitability along with improvement in asset quality.

Downward Factors

- Substantial degrowth in advances and deposits of the bank from the current levels.



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- Any major increase in slippages leading to further deterioration of asset quality and thereby impacting the earnings profile.
- Any material decline in overall capital adequacy ratios below the current levels.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Sustained improvement in the earnings profile:

SIB's earnings profile has shown sustained improvement in the last 5 years on the back of consistent growth in the advances with major contribution from retail loan book. In FY24 (refers to period 1st April 2023 – 31st March 2024), SIB's net interest income increased from Rs 3012.00 crore in FY23 to Rs 3332.00 crore in FY24 and its NIM has improved to 3.31% in FY24 from 3.30% in FY23 due to lower cost of deposits. SIB's operating profit had increased to Rs 1,867.67 crore in FY24 from Rs 1,507.33 crore in FY23 and the Net Profit increased to Rs 1,070.08 crore in FY24 as against Rs 775.09 crore in FY23 on the back of improved operational efficiency and decreased credit costs. SIB's ROA and ROE has improved to 0.91% & 12.13% respectively as on 31 March 2024. For Q1FY25, SIB reported total interest income of Rs 2736.13 crore, operating profit of Rs 507.68 crore and PAT of Rs 294.13 crore. Going forward, ability of the bank to maintain a healthy profitability and manage its credit costs will remain a key rating monitorable.

Granular and diversified loan book:

SIB's loan book (advances) is granular and diversified in nature with only 41% exposure to corporate loan segment and 59% exposure to retail loan book. Retail loan book comprises 23% of personal loan book, 20% of agriculture loans and 16% of business loans as on 30th June 2024. SIB's gross domestic advances have grown y-o-y by ~12% to Rs. 80,426 crore in FY24 from Rs 72,092 crore in FY23. Gross advances have further grown to Rs 82,580 crore in Q1FY25 driven by the growth in retail loan book. Infomerics Ratings expects the growth momentum to continue considering the established branch network and customer base which will drive the credit growth.



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Comfortable capitalisation:

SIB's capitalization levels are comfortable, with Common Equity Tier-1 (CET 1) ratio, Tier-I capital adequacy ratio (CRAR) and total CRAR at 15.77%, 16.71% & 18.11% respectively, as on June 30, 2024 (16.66%, 17.65% & 19.91%, respectively, as on March 31, 2024). SIB has raised fresh capital worth Rs. 1,151 crore in FY24 through rights issue. Infomerics Ratings expects SIB will continue to maintain a sufficient buffer above the minimum regulatory capital requirement to meet credit growth on back of expected capital infusion ably supported by improvement in internal accruals over medium term.

Moderate resource profile:

SIB's resource profile is moderate marked by the proportion of CASA deposits which remained stable at 32.06% as on 30th June 2024 (FY24 : 32.08%) despite the challenges faced the banking industry in mobilizing CASA deposits as post rate hikes during FY23, depositors preference have shifted to term deposits with attractive rates along with mutual funds which has seen record inflows as the capital markets are at a record high in the post pandemic era. SIB's cost of funds and cost of deposits have increased to 4.91% & 5.40% respectively as on 30th June 2024 (FY24: 4.59% & 5.10% respectively). Infomerics Ratings expects SIB's resource profile to remain healthy over medium term on back of stability in CASA deposits due to its strong deposit base.

Key Rating Weaknesses

Average, albeit improving, asset quality:

SIB's asset quality continues to remain average despite improvement over the years as marked by GNPA and NNPA which stood at 4.50% & 1.44% respectively as on 30th June 2024 (4.50% & 1.46% respectively in FY24, 5.14% & 1.86% respectively in FY23). The improvement in the asset quality is mainly due to reduction in large ticket size loans to improve the granularity of the loan book, adoption of stringent lending policies and focus on better rated corporate loan book. However, the bank has Rs 22,152 crore of legacy/old loan book out of



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total loan book of Rs 82,580 crore and Rs 3,497 crore of GNPA out of total GNPA of Rs 3,720 crore is from the old loan book as on 30 June 2024. Additionally, SIB's slippage ratio stood at 0.41% (FY24: 1.69%) as on 30th June 2024 whereas its PCR stood comfortable at 79.22% (FY24: 79.10%) as on 30th June 2024. SIB's asset quality will continue to remain a key rating monitorable.

Regionally concentrated operations

Despite presence across pan India with 955 branches across 26 states and 4 union territories, SIBs operations are regionally concentrated with Kerala contributing to 34% of advances followed by other southern states, which contributes to 33% and rest of India contributing to 33% of advances of the bank as on 30 June 2024. This exposes the bank to geographical concentration risk. Going forward, the ability of the bank to diversify geographically and reduce its concentration will be a key rating sensitivity.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Banks](#)

[Policy on Default Recognition and Post – Default Curing Period](#)

[Criteria of assigning Rating Outlook.](#)

[Complexity level of rated instruments/Facilities](#)

[Financial Ratios & Interpretation \(Financial Sector\)](#)

Liquidity: Strong

SIB's liquidity position is supported by the strength of its liabilities franchise and its sovereign ownership. The Bank is having a sizeable retail deposit base that forms a significant part of the total deposits. Its liquidity coverage ratio stood at 142% as on June 30, 2024, as against minimum regulatory requirement of 100%. Liquidity is further supported by the Bank's access



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to systemic sources of funds, such as the liquidity adjustment facility from RBI and access to the call money market.

About the Bank

Established in 1929, SIB was the first 'scheduled bank' amongst the private banks in Kerala. SIBL has no identifiable promoter, and the shareholding pattern is well diversified. It has strong presence in south India and particularly in Kerala. As on June 30, 2024, SIBL had a network of 955 branches and 1298 ATMs spread across the country.

Financials (Standalone)*:

Rs in crore

For the year ended/As on*	31-03-2023	31-03-2024
	(Audited)	(Audited)
Total Income	8045.81	10128.32
PAT	775.09	1070.08
Total Business	163,743.42	182,346.52
Gross Advances	72092.07	80426.26
Total Deposits	91651.35	101,920.26
Networth	6674.69	8826.18
<u>Ratios</u>		
NIM (%)	3.30	3.31
ROA (%)	0.72	0.91
Tier I CRAR (%)	14.74	17.65
Total CRAR (%)	17.25	19.91
GNPA [Stage III] (%)	5.14	4.50
NNPA {Stage III} (%)	1.86	1.46
CASA (%)	32.98	32.08

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not applicable



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Any other information: NA

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
1.	Issuer rating	Long Term	-	IVR AA-/Stable	-	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information and definition of ratings please visit www.infomerics.com.



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Annexure 1: Instrument/Facility Details

Instrument/ Facility	ISIN	Date of Issuance	Maturity Date	Coupon (%)	Amount (Rs in Crores)	Listing Status	Rating
Issuer Rating	-	-	-	-	-	-	IVR AA- /Stable
	Total				-		

Annexure 2: Facility wise lender details – Not Applicable

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not applicable.

Annexure 4: List of companies considered for consolidated/Combined analysis: Not applicable.

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.